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November 2, 2006

Ms. Susan M. Hudson, Clerk *Via Electronic Mail*
Vermont Public Service Board
Chittenden Bank Building, Fourth Floor
112 State Street, Drawer 20
Montpelier, Vermont 05620

Re: Next Steps on Financing the EEU Budget

Dear Ms. Hudson:

Pursuant to the schedule established by the Public Service Board (the "Board") at the workshop on Demand Side Management ("DSM") financing held October 18, 2006, this memorandum describes Central Vermont Public Service Corporation ("Central Vermont," "CVPS" or the "Company") comments on the policy issues associated with considering financing all or part of the Energy Efficiency Utility ("EEU") budget.

As a preface, it is important to consider some key factors associated with financing the EEU budget that can create barriers to the use of traditional utility finance. Since the DSM measures implemented by the EEU generally become the property of the participating customer, it is difficult to grant a security interest in the assets to collateralize the financing. As such, if a utility were to borrow substantial sums to finance the acquisition of DSM measures, it would increase the utility's debt but there would be no offsetting increase in assets. Given that a utility has a limit, based on its creditworthiness, the use of its borrowing capacity to purchase DSM necessarily reduces its ability to finance other infrastructure investments and *vice versa*. Accordingly, Central Vermont recognizes that creating a entity to finance DSM may, under some circumstances, help to lower the cost of the debt needed for such purposes and may help utilities to maintain needed access to capital for other required investment in poles, wires, and generation assets.

Against this backdrop, Central Vermont has identified the following circumstances where financing all or part of the EEU budget could be advantageous:

- When "lumpy" investments in DSM are called for to help cost-effectively defer or avoid otherwise required distribution, transmission or generation investments.

- When financing all or some program expenditures would help to mitigate intergenerational inequities by spreading the cost of the DSM measures over their useful life.

- When financing the accelerated acquisition of DSM measures would help to mitigate potential rate shock, that might occur when the initial DSM costs exceed initial avoided cost benefits.

- Financing could be used in conjunction with a shift from all customers pay program designs to ones where the measure recipient pays (*i.e.*, financing could be used to let customers who receive efficiency measures pay back the loan out of savings over time).

- Financing can help to overcome access to capital barriers for utilities and customers when the acquisition of additional DSM is a sound part of a resource portfolio.

It must be recognized that financing DSM does have some potential disadvantages not present in the current system where DSM investments are generally made on a pay-as-you-go basis. For example:

- Using financing adds debt service costs to the cost of the measures and thereby increases the measure costs at least in a nominal dollar sense. However, debt service will not necessarily increase the economic present value of the costs (although equity financing will because of tax gross-up issues).

- The ability to finance expenditures and defer payments into the future might induce expenditures that would not be undertaken if the financial consequences were immediately realized.

- Depending on the design of the financing strategy, the credit quality of the affected utility or the State could be adversely affected (*e.g.*, increasing the uncollateralized debt of the utility, or reducing the borrowing capacity of the issuer).

Within this context, the use of financing could still be an important tool for managing and implementing DSM as part of the provision of “least-cost” service to Vermont electricity consumers.

Before large incremental investments in DSM are authorized, financed or not, there are operational issues that should be taken into account. First, throttling programs could be confusing to customers. Moreover, investing in a DSM "bubble" could be difficult for program designers and implementers. As a result, large incremental increases in DSM spending will require planning and the key determinant should not be the availability of financing to increase EEU budgets.

In sum, Central Vermont offers these comments on the policy issues associated with a decision to create a mechanism to finance the EEU budget in order to help add perspective to the discussion. The Company looks forward to the insights and ideas of other workshop participants, and welcome comments and questions.

Should you have questions concerning this submission, please do not hesitate to contact me.

Respectfully submitted,

/s/

Morris L. Silver

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cc: Electronic Service List